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INVESTMENT SUMMARY

3rd Quarter 2015

After several years of relatively smooth sailing in equity markets, the third quarter hit investors with a full-blown correction. In our August letter to you, we discussed the market pullback at length, as well as the probable causes for the volatility in stocks: slowing growth in China, indecisive monetary policy on the part of the Fed, and the collapse in commodity prices led by oil. As the third quarter came to a close, investor anxiety levels were high regarding all of these market moving themes.

With one quarter remaining in the year, major stock indexes show percentage losses in the mid-single digits. Even the thirty blue chip companies that make up the Dow Jones Industrial Average struggled; in fact, these elite businesses did even worse than the broader market, down closer to 7% for the year. Not even high-quality dividend paying stocks offered refuge in the quarter.

While the stock market results were the bad news in the quarter, the broader U.S. economy demonstrated continued progress. On the labor front, the U.S. unemployment rate improved to 5.1%, as the economy continued its recent pace of generating close to 200,000 new jobs per month. And there is reason for further optimism, with the current net worth of the U.S. consumer at an all-time high, to go along with near-record profit margins being achieved by corporate America.

As the world has become more globally integrated, local stock and bond markets will continue to be impacted by international developments. The decision by the Federal Reserve Board to eventually raise interest rates (if it ever does happen) will have far-reaching consequences. As an example, higher rates typically strengthen the U.S. dollar, which impacts the prices of our imports and exports. A second group impacted by higher U.S. interest rates is emerging market companies, who borrow dollars to finance their businesses – and the list goes on and on.

Critics of the Fed would like to see Chairman Yellen raise interest rates and remove this distraction from the minds of investors. We are confident that the U.S. economy can handle a .25% increase in interest rates, and would expect the markets could withstand higher rates, too. Factoring in a potential rate hike, fourth quarter GDP is still expected to expand at an admirable clip of 2.5%.